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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 001192

SIPDIS

DEPT FOR EUR/CE, EB/OMA, INR/EC; USDOC FOR SAVICH; TREASURY
FOR ERIC MEYER, JEFF BAKER, LARRY NORTON; USEU FOR HAARSAGER

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SUBJECT: A WINTER OF DISCONTENT: WORKERS STRIKE AGAINST
TIGHT BUDGETS AND AUSTERITY MEASURES

REF: BUDAPEST 1158

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶11. (SBU) As Parliament is preparing to finish its Autumn session with the passage of a leaner 2009 budget bill, a growing number of current and planned transportation industry and public sector employee strikes are disrupting daily life in Hungary, and increasing pressure on the cash-strapped government to provide relief it cannot afford.

TRANSPORTATION STRIKES

¶12. (U) On December 10, two trade unions at Budapest's Ferihegy Airport initiated an indefinite strike after having failed to reach agreement on a new collective bargaining agreement with the airport operator, Germany's Hochtief. The union's demands include additional compensation and an end to layoffs and outsourcing. Although one of Ferihegy's three terminals remains open and most flights continue to operate, the delays and uncertainty about possible cancellations has caused considerable headaches for travelers, and has caused some airlines to transport passengers two hours by bus to the airport in Vienna. By December 15, the airport had announced its intention to bring in foreign personnel to supplement the Ferihegy workforce.

¶13. (U) On December 14, the Free Union of Rail Workers (VDSZSZ) began a nationwide rail strike, seeking a share of the privatization revenue from MAV Cargo and a pay supplement for employees of outsource subsidiaries. Although only a portion of the city's metropolitan transportation network will likely be affected, a separate half-day strike is planned by trade unions of the Budapest Transport Company (BKV) on December 18 unless management meets union demands for new legislation on financing the city's transport services.

PUBLIC SECTOR OPPOSITION TO AUSTERITY MEASURES

¶14. (U) Following the GoH announcement of budget cuts to meet stabilization package requirements, an estimated 20,000 public sector workers demonstrated on November 29 against government plans to freeze wages and abolish "13th month" salaries for public sector workers. Union leaders subsequently announced an open-ended public sector employee strike beginning January 12, and have expressed "solidarity" with airport employees as well.

¶15. (C) The government is currently in negotiations with public sector employee unions over the planned measures, but given government budget constraints, there seems to be little hope for resolution. Although Cabinet Minister Kiss - the government's point man on negotiations with the public sector employees' unions - has attempted to project confidence in

contact with us, these labor problems arrive at a time of more bad news regarding industrial production, exports, and manufacturing orders.

¶ 6. (C) Some believe that many union demands are unrealistic attempts to press for the best possible contracts before the expected economic contraction in 2009. Even outside observers like Hungarian Academy of Science President Jozsef Palinkas expressed the view that railway trade union demands that each employee receive HUF 250,000 (USD 1250) for the privatization of MAV Cargo were "nonsense" and "totally unrealistic."

GOVERNMENT EASING OF AUSTERITY MEASURES?

¶ 7. (C) On December 15, the IMF issued a statement noting that Hungary is on track to meet its fiscal adjustment targets for 2008 and 2009. At the same time, however, there are reports that the government is considering rolling back some of its planned austerity measures affecting public sector employees, including offering to restore the 13th month payment to public sector workers, albeit at a capped level of HUF 140,000 (USD 700). The union reportedly rejected this offer, however, as insufficient. Observers are concerned that rolling-back the announced austerity measures will further undermine the government's credibility and make it more difficult for it to meet deficit reduction targets. K&H Bank Chief Economist Gyorgy Barcza notes that the Government may find itself in the worst possible situation - announcing a compensation package for public sector employees that weakens the announced austerity package measures, but does not bring an end to public sector strikes.

BUDAPEST 00001192 002 OF 002

¶ 8. (C) Although Minister Veres insists that maintaining fiscal discipline is the government's top priority, and that it has little room to maneuver in negotiations with public sector employees, the GOH is under increasing pressure to ease some of the planned cuts affecting public sector employees. The opposition is adding to this pressure, with comments like those of Fidesz MP Robert Repassy that the government's austerity measures are "brutal" and will put 700,000 - 800,000 families in "dire straits." Some economists have also expressed concern that any budget reserves are needed to offset lower government revenue resulting from a lower-than-expected inflation rate, and should not be used as a bargaining chip to prevent strikes by public sector employees.

NEW YEAR'S IRRESOLUTION

¶ 9. (C) Comment. The GoH cannot discount the prospect of rolling strikes through the holiday period as unions in diverse economic sectors press for the best possible contracts before the expected contraction of 2009. As one contact quipped, "Parliament may be off for two months but the bad news keeps right on coming." All joking aside, the government simply cannot accommodate the unions various demands given the terms of the international stabilization package. Although there is widespread public frustration with the strikes and often with the strikers, the government will win few points for holding a line most Hungarians see as having been drawn in Brussels and imposed in Budapest. End comment.
Foley